



2021 Long-Range Financial Plan

Public Utility Board Meeting | January 12, 2022

What is a LRFP and why do we have one?



A strategic financial plan:

- Documents financial planning and forecasting
- Provides a long-term view, generally five to ten years
- Ensures financial direction is in alignment with strategic goals



Our LRFP:

- Promotes our mission to provide clean, reliable water
- Supports our objective to keep our rates as low as is responsible and helps us provide our customers with predictable, stable rates
- Serves as a tool to communicate our long-term plan to Board and Council members and help inform policy discussions
- Demonstrates Tacoma Water's financial sustainability and stability to our stakeholders including current and potential investors and rating agencies

What's in the LRFP: Table of Contents

1. Introduction

Introducing our Long-Range Financial Plan and its highlights

2. Guiding our Long-Range Financial Plan

Policies and principles that guide our long-range financial planning

3. Background

Learn about our utility and how we develop budget and rates

4. The Foundation

An overview of our expense, revenue, credit, debt, and reserves

5. Regional Water Supply System

Learn about the Regional Water Supply System

6. Base Case Scenario Planning

The base case scenario models current assumptions and provides the most probable set of outcomes

7. Risk Factors and Scenario Planning

Includes internal and external factors impacting our utility

8. The Impact of the Pandemic

How the pandemic impacted our utility, customers, and how we responded

9. Implementing the Plan

A summary and looking forward

10. Appendix

A little more detail about the contents of our scenarios

What are the guiding principles for our LRFP?

Board Strategic Directives

Financial Stability

TPU will secure its commitment to provide safe and reliable power, water, and rail services over the long term by maintaining sustainable budget, financial, and asset management practices.

Rates

TPU rates for power, water, and rail services play an essential role in securing a strong economy, establishing equity among customers, and producing revenue sufficient to provide safe, reliable, and environmentally sensitive utility services. TPU strives to ensure rates will be adequate, fair, just, and reasonable.

Water Rate & Financial Policy

Purpose

The Water Rate and Financial Policy gives direction to planning decisions and helps ensure that the Tacoma Water provides an adequate supply of safe, clean water to all customers efficiently, reliably, and at the lowest possible cost consistent with prudent utility management.

Guiding Objectives

- a. Water Rates Should Ensure Adequate Supply.
- b. Water Rates Should Be As Low As Is Responsible.
- c. Water Rates Shall Be Fair.
- d. Water Rates Should Be Stable and Understandable.
- e. Water Rates Should Be the Product of Customer Involvement.

The Foundation of our Financial Forecasting

These elements form the foundation of the LRF and are used to inform our base case. Actual performance is likely to vary from these assumptions and may result in changes to our projected rate adjustments. We've grouped the elements into three subsections:

Expense Assumptions

It costs a lot to maintain our infrastructure and deliver clean, reliable water to our customers. We invest in our employees, asset management, data, analytics, and technology as we continue to innovate and strive to become more efficient and effective.

Revenue Assumptions

Our revenue primarily comes from water sales. In addition, we have several sources of miscellaneous revenue to help reduce the amount of revenue that we need to collect from our customers.

Credit, Debt and Reserves

Our plan provides a balanced approach to managing reserves, revenue bonds, and low-interest loan or grant opportunities. Strong financial metrics and credit ratings allow us to provide the lowest costs for our customers and ensure our long-term financial sustainability.

Summary of Risks and Opportunities

Planning for Uncertainties

The only thing that is certain about any plan that looks so far ahead is that things will be different from what we planned. For this reason, it is important to identify possible uncertainties, evaluate their potential impacts and incorporate strategies to mitigate them.

We use our Rate and Financial Model to help us:

- Analyze and compare assumptions
- Determine a range of outcomes
- Project fund balances
- Estimate debt service coverage levels

The further out we forecast costs and revenues, the more uncertainty there is surrounding these estimates. Therefore, we have modeled some scenarios to address potential future conditions that may impact us. The following provides an example of the risks considered as part of this process, and is not intended to be comprehensive or exhaustive.

Internal Risks



- Compliance with Regulatory Mandates
- Supply Portfolio
- Technology Changes
- Aging Infrastructure
- Employee Expectations

External Risks



- Weather and Climate
- Seismic Events
- Economic Cycles and Inflation
- Policy or Regulatory Changes
- Environmental Regulations
- Changes in Customer Demand
- A Pandemic

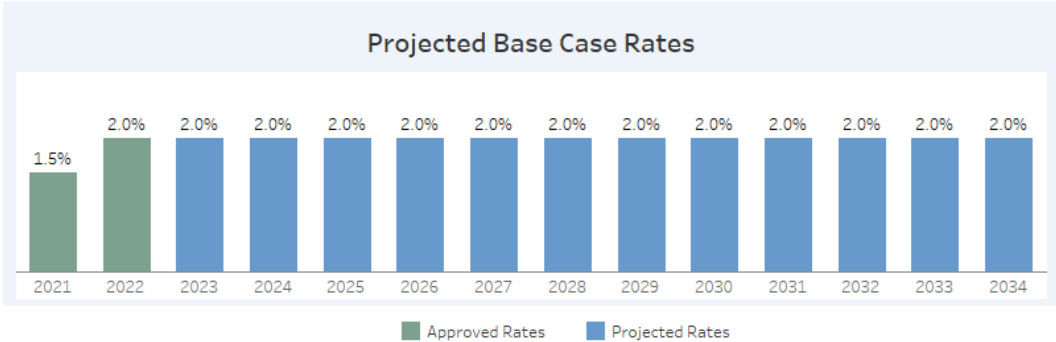
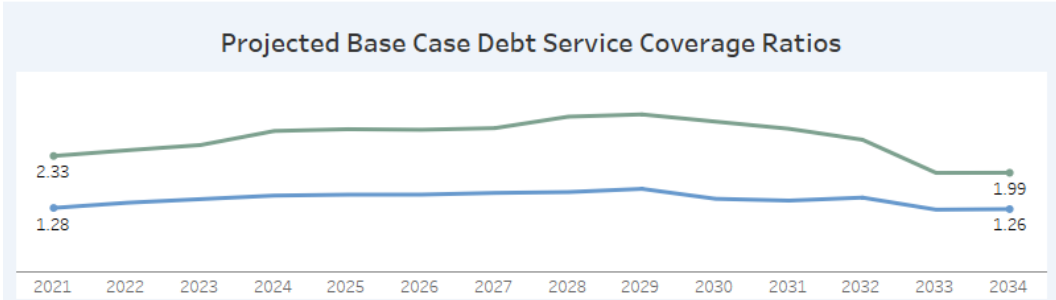
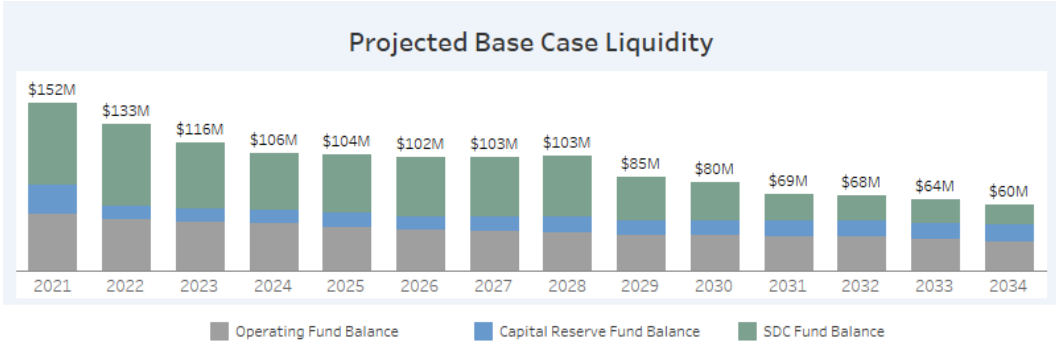
The Base Case

The Base Case & Scenarios

To get anywhere, you have to start somewhere, and for our LRFP, that starting point is called the **Base Case**. This base case scenario is what we believe is the most probable set of outcomes, given estimates and assumptions that are based on history and our best knowledge today.

Once we establish the base case scenario, we can adjust individual assumptions to develop **Scenarios**. This adjustment helps identify uncertainties, evaluate possible impacts and develop strategies to mitigate the impacts.

The Base Case has been updated with 2020 year-end information that was not available during 2021-2022 budget development. These changes did not result in significant differences from the plan that was shared with the Public Utility Board during that process.

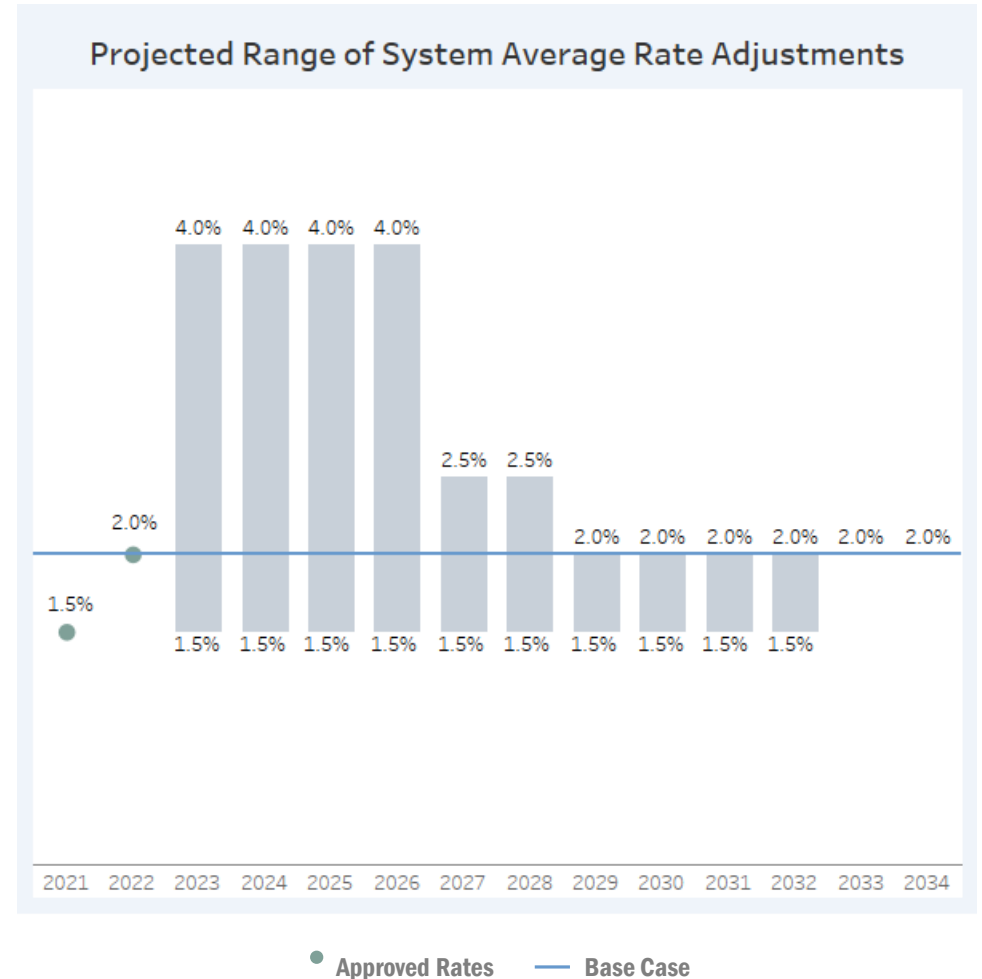


Summary of Scenarios

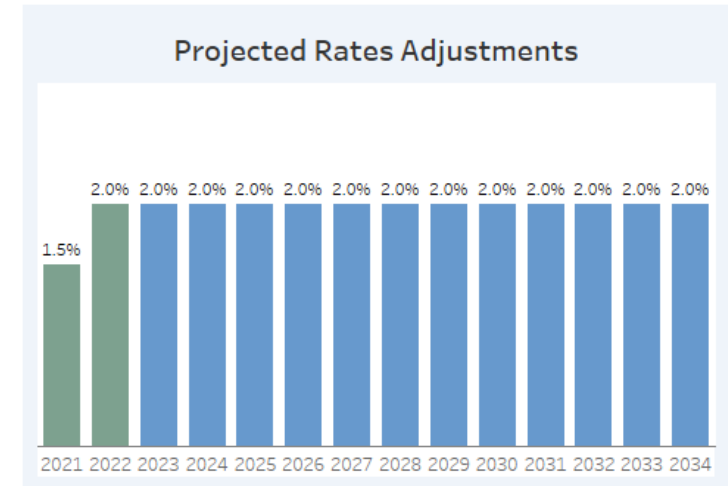
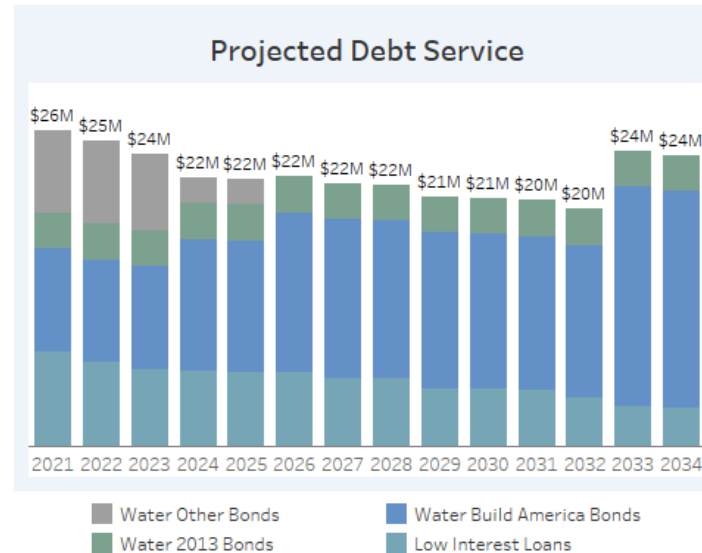
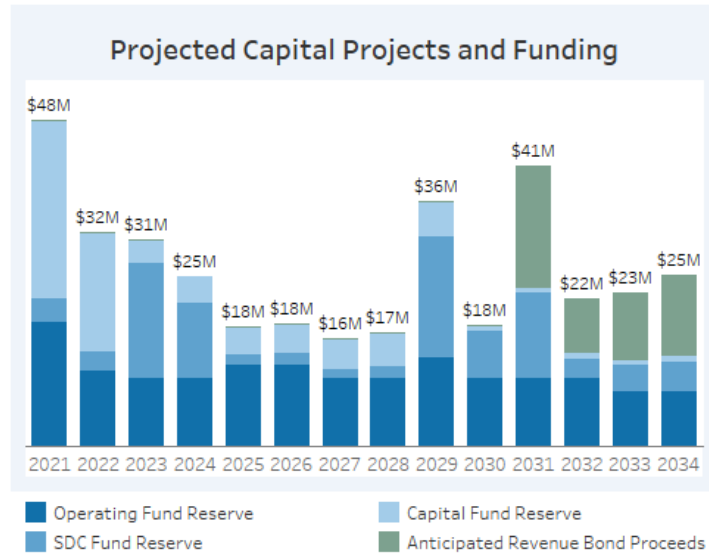
Scenarios for 2021

The further out in time we forecast costs and revenues, the more uncertainty exists around these estimates. Therefore, we have modeled some scenarios to address potential future conditions that may impact us.

The scenarios shown represent a range of possible outcomes, which help us assess potential financial risks and opportunities. The scenarios shown here do not represent all scenarios we develop and analyze. Scenario development helps us analyze potential variances from the base case and develop a projected range of rate impacts.



Anticipating Projects, Optimizing Debt, and Stabilizing Rates



We base these projections on available information as of **2020**. If there are known circumstances that we need to plan for in 10 years and beyond, stable rate adjustments will put us in a good position for potential pinch points such as unforeseen revenue loss and increases in debt service.

Looking Forward: Annual Updates and Future Planning

We plan to update the LRFPP each year to ensure our assumptions reflect current and evolving conditions and adjust as needed. This includes updating the LRFPP with **2021** actuals and budgeting assumptions for **2023-2024** biennium by the summer of 2022.

Some potential considerations that may require us to adapt are:

- ***Pandemic.*** We will continue monitoring impacts such as customer arrearages, supply chain disruptions, and consumption changes.
- ***Advanced Meters.*** Once we fully exchange our meters, we will have the opportunity to utilize near real-time data to inform decision-making and enhance customer service (including assistance).
- ***Supply Modeling.*** With our changing customer demand profile, we will pivot modeling to market regional opportunities for increased revenue.